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INDUSTRIAL DISTRIBUTION

THE MANAGEMENT AND SALES MAGAZINE FOR DISTRIBUTORS

ABRASIVES

Does loyalty count? p. 19

MRO program pours $$ to Bethlehem's bottom line PAGE 22

Using software to balance inventories p. 28

Implementing new health care plans p. 58

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Facing long-term and stiff competition, key players in the abrasives sector share candid insights.—p. 19

When distributors analyze what can be done to control costs, pouring steel becomes more productive.—p. 22

Fixed and variable costs are key elements you need to account for in realistic inventory management formulas.—p. 28

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By Susan E. Farris

Manageable distribution costs for '92

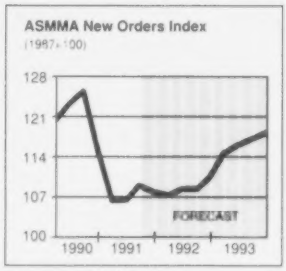
Stable inventory carrying costs and mild inflation for warehousing costs anticipated.

With forecasts calling for a modest manufacturing expansion and a 4.7% rise in the I.D.A. sales index for 1992, industrial distributors will have to concern themselves with managing their distribution costs. Distributors can expect low inflation in 1992 to push inventory costs up. Labor and equipment expenses are also forecast to rise this year. However overall distribution costs should increase only moderately in 1992.

Expect inventory costs to remain low this year. Inventory carrying costs, defined as the opportunity cost of holding liquid assets, include capital costs, inflation costs and obsolescence costs. Since the mid-1980s inventory costs have hovered between 15 and 20% of the value of goods held. Despite improvements in inventory turnover, low inflation has increased the cost of holding goods. In 1991 inventory carrying costs averaged just under 14 cents per dollar held of inventory. With inflation down and financing rates expected to rise, the forecast calls for inventory costs to grow to over 18 cents on the dollar in 1992. This is low relative to historical standards, when high interest rates pushed inventory carrying costs to over 25% of the value of goods. By 1993 carrying costs will creep up to just over 20 cents per dollar of inventory held.

Warehousing costs include items such as the expense of labor, space, fuel, equipment and packaging. These costs have crept up over the past few years, but at an annual rate of less than 3%. This is primarily due to sharply higher productivity gains in materials handling and storage, and better inventory control. Warehousing costs rose more slowly than inflation in 1991, drifting up just 2.4%. While labor and equipment expenses are both forecast to be higher in 1992, they will be offset by lower fuel and space rental costs. So, expect warehousing expenses to rise 2.8% in 1992.

The annual Cahners 1992 Economics Outlook is now available. This 50+ page report features forecasts for the general economy, as well as over thirty industrial and service industries. Readers can order for $21 by sending check with name and address payable to Cahners Economics, P.O. Box 59, New Town Branch, Boston, Mass. 02258-9908.



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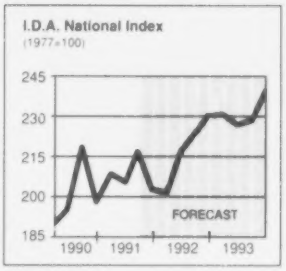

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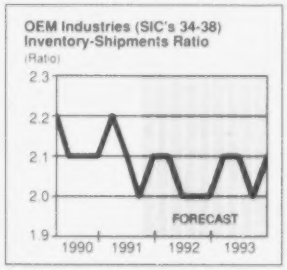

Data source: Commerce Department
Forecast source: Cahners Economics

Data source: Department of Commerce
Forecast source: Cahners Economics

(1977=100)	SALES Nov. 1991	SALES Oct. 1991	SALES Nov. '91 vs Nov. '90 % change	RECEIVABLES Nov. 1991 days	INVENTORY Oct.-Nov. 1991 % change
TOTAL	207.5	197.6	+2.1	42.2	+0.4
EAST	185.1	186.4	+3.6	44.6	−1.2
SOUTH	306.0	318.8	+12.9	41.4	+2.4
CENTRAL	158.4	144.5	−10.1	43.1	+0.3
WEST	208.0	202.5	−3.3	36.4	+0.3

SOURCE: Industrial Distribution Assn.